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SUBJECT: GOVERNMENT-DONOR QUARTERLY MEETING: ECONOMIC CRISIS TAKES
CENTER STAGE

¶1. (SBU) Summary: The Royal Government of Cambodia (RGC) April 28 hosted the 14th Meeting of the Government-Donor Coordination Committee (GDCC) to review progress made toward their national development strategy and discuss policy impediments. The RGC presented thoughtful economic analyses and serious policy responses to mitigate the impact of the global economic crisis. The Ambassador led the session on the joint indicators -- measures of progress. In a departure from the past, the response from the RGC was complete and the dialogue engaging. Some of the policy responses offered by the RGC indicated a greater awareness of a sense of urgency to take action. The GDCC continues to get negative English-language press as a "talk fest" without regard for some of the commitments made behind closed doors. While the RGC's painstakingly slow Asian consensus model irritates critics, we believe some positive change is afoot, though it remains to be seen how much. End Summary.

¶2. (SBU) The Government-Donor Coordination Committee (GDCC) is a quarterly meeting designed to review jointly progress made in implementing the RGC's National Strategic Development Plan, as measured by the joint monitoring indicators (JMI). The meeting was attended by seven Ambassadors and eight representatives of bilateral missions providing assistance to Cambodia, multilateral bank representatives, a few Ministers, secretaries of state from 15 ministries and co-facilitators of the 19 established donor technical working groups (TWG). This meeting focused on the economic crisis, conducted a review of indicators, and discussed aid effectiveness.

¶3. (SBU) The RGC presented a thoughtful analysis of the macro economic trends, the garment sector, and the strength of the Government's social safety net. In a departure from the past, the RGC also presented a number of economic policies and other measures to retain investment and mitigate the growing negative consequences of the global economic crises. Some of the measures included strengthening tax administration; shifting treasury funds to invest in infrastructure, transportation and agriculture; decreasing reserves to 12%; increasing the minimum capital requirements [once again]; providing a three-year tax holiday for agriculture investments; adding incentives for agriculture processing and vocational skills training investments; suspending the one-percent pre-payment tax on profits. The Chair of the GDCC, Deputy Prime Minister and Minister of Economy and Finance Keat Chhon, remarked that the economic crisis could be viewed as an opportunity to not only mitigate negative consequences but also to make needed improvements to enhance Cambodia's competitiveness. The policy responses offered by the RGC is an indicator of the seriousness of the situation and the sense of urgency with which they are taking action.

¶4. (SBU) The Ambassador presented the donor consensus statement on the joint indicators where a dozen issues covering governance, corruption, justice and land were raised to the RGC as well as areas of substantial progress most notably in health, public administration reform, and trade. Unlike previous years' meetings, the RGC engaged in an hour of dialogue responding to each of the issues raised. While the actions offered in response were not as concrete as those in response to the economic crisis, the RGC agreed

to certain key items: to revive the public administration reform working group that had lapsed due to inactivity; to allow the donors to review the anti-corruption law (as had been requested); and to stop the sale of forest or protected flood lands, among others. Progress in administration reform was made in a number of activities; however, it was insufficient to meet the established target. For example, judicial professionals have been trained but neither JMI, the penal code or the statute on judges, has been passed. This session was marked by a greater degree of dialogue on these issues than previous years, though the progress was minimal.

¶5. (SBU) Coverage in the English press was critical of the lack of progress on the JMI and based those statements largely on the government written presentations and donor consensus statements. The Khmer-language press was divided, with the pro-government press more accurately reflecting the meeting and capturing the Chair's message to view the crisis as an opportunity to enhance competitiveness but warning of difficulty in maintaining the improved standard of living achieved over the last decade. The opposition press criticized the government for the lack of political will to make needed reforms and pointed to the delayed passage of the anti-corruption law as an example. The press was not privy to the government responses to the issues raised by donors nor were post-GDCC statements from Embassies carried in the local press.

¶6. (SBU) Comment: The RGC appeared seized with the growing negative impact of the economic crisis. The participants noted a sense of urgency both in the RGC's presentations and responses to issues raised. The economic crisis seems to have spurred a renewed effort for some needed reforms; time will tell if the RGC follows through on policy remedies and commitments it offered.

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